

Message Text

SECRET

PAGE 01 TAIPEI 04202 01 OF 04 120929Z

12

ACTION PM-07

INFO OCT-01 EA-11 ADP-00 NSC-10 SS-15 RSC-01 L-03 H-02

CIAE-00 INR-10 NSAE-00 IGA-02 AID-20 ACDA-19 MBFR-03

MC-02 OMB-01 TRSE-00 EB-11 RSR-01 /119 W

----- 061776

R 120750Z JUL 73

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 9191

INFO SECDEF WASHDC

CINCPAC HAWAII

S E C R E T SECTION 1 OF 4 TAIPEI 4202

E.O. 11652: GDS

TAGS: MILI, TW

SUBJECT: SECURITY ASSISTANCE, ROC - ASSESSMENT

REF : A) STATE 024348; B) STATE 024958

1. I. SUMMARY

PROSPECTS FOR ROC ECONOMIC GROWTH AND ITS ABILITY TO SHOULDER INCREASING SHARE OF ITS FOREIGN CURRENCY EXPENDITURES FOR MILITARY PROGRAMS REMAIN EXCELLENT. ESTIMATED FOREIGN DEBT SERVICE RATIO OVER NEXT FIVE YEARS SHOULD AVERAGE ANNUALLY AT VERY FAVORABLE LEVEL OF SIX TO SEVEN PERCENT AND CONTINUED RAPID GROWTH IN EXPORT SECTOR WILL FURTHER EASE ROC BURDEN. HOWEVER, COMPETING DEMANDS FROM CIVILIAN SECTOR, PLUS THE NECESSITY FOR CONTINUED CONFIDENCE IN US COMMITMENT TO MUTUAL DEFENSE TREATY, CALL FOR CONTINUING MILITARY ASSISTANCE TO ROC IN FORM OF FMS CREDITS, FMS CASH PROCUREMENT INCLUDING EDA, AND TRAINING/ ADVISORY SERVICES TO MEET ROC'S MODERNIZATION AND DEFENSE PREPAREDNESS GOALS. WITHIN THIS FRAMEWORK U.S. SHOULD SEEK TRADE OPPORTUNITIES FOR SALES OF DEFENSIVE MILITARY EQUIPMENT, MEETING SHORTFALL WITH FMS CREDITS AND CONCESSIONARY EXCESS SALES WHERE APPROPRIATE.

SECRET

SECRET

PAGE 02 TAIPEI 04202 01 OF 04 120929Z

2. II. BACKGROUND

A. U.S. POLICY OBJECTIVES

1) U.S. SECURITY ASSISTANCE TO ROC HAS TWO UNDERLYING COMPREHENSIVE POLICY OBJECTIVES: A) TO ASSIST IN MAINTAINING, ESPECIALLY THROUGH MODERNIZATION, ROC MILITARY DEFENSE CAPABILITIES, TO HELP DETER AND DEFEND AGAINST ARMED ATTACK ON AREAS COVERED BY THE MUTUAL DEFENSE TREATY, IN ORDER TO GIVE THE U.S. TIME TO ASSESS THE SITUATION AND TO CONSIDER WHAT DIPLOMATIC AND MILITARY ACTIONS MIGHT BE NECESSARY; AND B) TO ENCOURAGE THE ROC TO ADOPT STRATEGIES, TACTICS AND WEAPONS PROCUREMENT PROGRAMS THAT ARE MORE DEFENSE ORIENTED. CLOSELY LINKED WITH ABOVE GOALS ARE TWO ADDITIONAL U.S. OBJECTIVES INVOLVING U.S. FORCE LEVELS AND MILITARY INSTALLATIONS ON TAIWAN. FIRST IS THE ORDERLY AND PROGRESSIVE REDUCTION OF U.S. MILITARY FORCES IN ROC AS THE TENSION IN THE AREA DIMINISHES, AND SECOND, ACCESS TO MILITARY FACILITIES ON TAIWAN IN CONNECTION WITH TREATY COMMITMENTS OR WITH U.S. THEATER RESPONSIBILITIES.

3. 2) THE ROC ECONOMIC PERFORMANCE, FAVORABLE RESERVE PICTURE, AND GENERAL CREDITWORTHINESS HAVE BEEN SUFFICIENTLY DEMONSTRATED OVER THE PAST 18 MONTHS TO CONCLUDE THAT TAIWAN IS LIKELY TO SUSTAIN RAPID ECONOMIC GROWTH AND CAN CARRY AN INCREASING SHARE OF ITS OWN DEFENSE BURDEN. THE DECISION TO TERMINATE U.S. GRANT MATERIEL ASSISTANCE TO THE GRC EFFECTIVE AT OUTSET FY 74 REFLECTED, IN PART, THE HEALTH OF THE ROC ECONOMY. HOWEVER, THE DEFENSE BURDEN REMAINS EXTREMELY HEAVY--ALMOST 10 PERCENT OF GNP AND ABOUT 40 PERCENT OF ITS CONSOLIDATED BUDGETS. THOUGH WE HAVE REACHED THE POINT WHERE BULK OF U.S. MILITARY ASSISTANCE TO ROC IS IN FORM OF FMS CREDITS AND DIMINISHING ACCESS TO EDA, IF WE ARE TO MAXIMIZE U.S. INFLUENCE IN ACHIEVING THE ABOVE OBJECTIVES, CONTINUATION OF CREDITS ON SELECTIVE BASIS AND ORDERLY PHASE-OUT OF CONCESSIONAL ASSISTANCE ARE OF PRIME IMPORTANCE. ROC ECONOMIC SUCCESS AND CAPACITY TO ABSORB INCREASING COSTS OF DEFENSE SHOULD NOT BLUR THE FACT

SECRET

SECRET

PAGE 03 TAIPEI 04202 01 OF 04 120929Z

THAT ITS MILITARY DEFENSE CAPABILITY IS STILL LIMITED WITH GENERALLY ACKNOWLEDGED DEFICIENCIES IN ALL SERVICES. ABRUPT DISCONTINUANCE OF U.S. ASSISTANCE WOULD SERIOUSLY IMPAIR ESSENTIAL MODERNIZATION OF ROC DEFENSE FORCES AND EQUIPMENT AND WOULD FURTHER INCREASE ALREADY DISPROPORTIONATE SHARE OF AVAILABLE RESOURCES GRC DEVOTES TO DEFENSE, TO DETRIMENT OF IMPORTANT CIVIL DEVELOPMENT PROJECTS WHICH HAVE BEEN DEFERRED BECAUSE OF COMPETITION FOR LIMITED

FUNDS. IT IS IN JOINT U.S./ROC INTEREST IF GRC ENHANCES ITS ABILITY TO CONTRIBUTE TO ITS OWN DEFENSE WHILE NOT SIGNIFICANTLY INCREASING THE DEFENSE SHARE OF OVERALL BUDGET.

4. 3) AT SAME TIME, WHILE ENCOURAGING THE GRC TO FORGO AN OFFENSIVE WEAPONS ACQUISITION PROGRAM, WE SHOULD RESIST A PATERNALISTIC STANCE WHICH WOULD SEEK TO IMPOSE UNREALISTIC PRIORITIES AND TO MAKE ECONOMIC AND SECURITY DECISIONS FOR THE GRC. THIS EVOLUTION IN JOINT U.S./ROC ROLES IN MUTUAL SECURITY MUST BE GRADUAL, AND IT MUST INCORPORATE A RATIONAL APPROACH TO THE U.S.'S NEED TO REDUCE ITS TRADE GAP WITH ROC, AND TO ENHANCE EXPORT OPPORTUNITIES IN MILITARY AS WELL AS CIVILIAN SECTORS.

5. B) ROC DEFENSE REQUIREMENTS AND U.S. ROLE

1) WITH DIMINISHING U.S. FINANCIAL SUPPORT FOR ROC MILITARY EQUIPMENT MODERNIZATION PROGRAM AND RATIONALIZATION OF ITS ARMED FORCE STRUCTURE, WE HAVE SEEN, AND CAN EXPECT INCREASED GRC INDEPENDENCE IN WEAPONS PROCUREMENT ACTIONS AND FORCE ALLOCATIONS. NONETHELESS, WE CONTINUE TO HAVE CONSIDERABLE INFLUENCE ON ROC MILITARY STRATEGY, PLANNING, PROCUREMENT AS REFLECTION OF OUR ROLE IN JOINT DEFENSE OF TREATY AREA, OF REDUCED LIKELIHOOD OF PRC ATTACK INHERENT IN US-PRC NORMALIZATION OF RELATIONS, AND ROC'S CONTINUING DEPENDENCE ON U.S. FOR FMS (CREDITS AND CASH), EDA, AND TRAINING.

6. 2) ALTHOUGH WE WILL CONTINUE TO SEEK NEW AREAS OF EMPHASIS WITHIN THE SECURITY ASSISTANCE PROGRAM, MOST OF LIMITED FUNDS AVAILABLE, ARE PREPROGRAMMED TO HIGH PRIORITY, LONG-RANGE PROGRAMS

SECRET

SECRET

PAGE 04 TAIPEI 04202 01 OF 04 120929Z

SECRET

NNN

MRN: 1973TAIPEI004202 SEGMENT NUMBER: 000002 ERROR READING TEXT INDEX
FILE; TELEGRAM TEXT FOR THIS SEGMENT IS UNAVAILABLE
ADP000
SECRET

PAGE 01 TAIPEI 04202 03 OF 04 120955Z

11

ACTION PM-07

INFO OCT-01 EA-11 ADP-00 NSC-10 SS-15 RSC-01 L-03 H-02

CIAE-00 INR-10 NSAE-00 AID-20 IGA-02 ACDA-19 MBFR-03

MC-02 OMB-01 TRSE-00 EB-11 RSR-01 /119 W

----- 062044

R 120750Z JUL 73

FM AMEMBASSY TAIPEI

TO SECSTATE WASHDC 9193

INFO SECDEF

CINCPAC

SECRET SECTION 3 OF 4 TAIPEI 4202

CONTINGENT THEREON. UNTIL WE RECEIVE APPROVED
GRC PLAN AND PRIORITY LIST LATER THIS YEAR,
WE MUST RELY ON PREVIOUS (AND PROBABLY OUTDATED) GRC
SHOPPING LIST AS APPROXIMATION OF AMOUNT AND DIRECTION
OF GRC CASH PROCUREMENT OF MILITARY HARDWARE AND SERVICES.

12. WE BELIEVE GRC WILL PERCEIVE A NEED FOR FOLLOWING
EQUIPMENT SYSTEMS WILL BE PREPARED TO PURCHASE
OVER NEXT FIVE TO EIGHT YEARS EITHER
ON BASIS CREDIT/CASH MIX, OR AILING THAT, SOLELY FOR
CASH (AS REQUIREMENTS ARE FORMALIZED AND ROC PROCUREMENT
DECISIONS TAKEN, COUNTRY TEAM WILL REVIEW AND RECOMMEND
COURSE OF ACTION):

15 PGM PATROL CRAFT (APPROVED FMS CASH PURCHASE
TO BE REVIEWED AFTER CO-PRODUCTION OF INITIAL 5 CRAFT)
4 AIR DEFENSE ARTILLERY BATTALIONS (PROBABLY VULCAN SYSTEM)
3 IMPROVED HAWK BATTALIONS (CONVERT AND IMPROVE
1, ACQUIRE 2 ADDITIONAL)
24 MEDIUM TRANSPORT HELICOPTERS (CH-47 TYPE)
59 LIGHT HELICOPTERS (OH-58 IS CURRENTLY BEING CONSIDERED
IN LIEU OF OH-13/OH-6)
DD/DDG CONVERSION (WITH SEA CHAPARRAL SYSTEM
A LIKELY CANDIDATE, NUMBERS UNSPECIFIED)
18 ALL WEATHER INTERCEPTOR (AWX AIRCRAFT)
40 CLOSE AIR-SUPPORT FIGHTER (OF A-7 OR A-10 TYPE)

SECRET

SECRET

PAGE 02 TAIPEI 04202 03 OF 04 120955Z

16 ASW AIRCRAFT (POSSIBLY S-2E)
24 DESTROYER-TYPE SHIPS TO REPLACE OBSOLETE CRAFT WITH
MODERN WEAPONS AND COMMUNICATIONS
SYSTEMS AND AIR SEARCH RADAR.
1 LCC, 3 LSDS AND 18 LSTS FOR SUPPORT OF ONE MARINE REGIMENT

23 AUXILIARY SHIPS TO SUSTAIN FLEET UNITS

1 ADDITIONAL SUBMARINE FOR TOTAL OF THREE TO ASSURE MINIMUM
OF ONE OPERABLE

1 DESTROYER SUBMARINE TENDER

1 SUBMARINE RESCUE VEHICLE

18 RECONNAISSANCE AIRCRAFT (SIMILAR TO RF-4 SYSTEM)

8 SEARCH AND RESCUE AIRCRAFT (OF HH-3E TYPE)

AUTOMATED AIR DEFENSE SYSTEM

ECM, ELINT EQUIPMENT

13.

III. ECONOMIC FACTORS

A. THE GRC'S ABILITY TO ASSUME AN INCREASING CASH
OR COMMERCIAL CREDIT BURDEN TO ACHIEVE ACCEPTABLE
LEVEL OF DEFENSE PREPAREDNESS IS CLOSELY LINKED WITH ITS
GROWTH IN GNP --PARTICULARLY IN EXPORT EARNINGS--
AND WITH ITS OVERALL DEBT SERVICE RATIO.

14.

B. THE ROC ECONOMY IS DIFFICULT TO DELIMIT
BEYOND ONE TO TWO YEARS IN ADVANCE BECAUSE OF
SUSCEPTIBILITY TO AREA AND INTERNATIONAL
POLITICAL DEVELOPMENTS, OF NEWLY-EXPERIENCED
INFLATIONARY PRESSURES FUELED BY LARGE INCREASES IN MONEY SUPPLY,
AND OF EXCESSIVE DEPENDENCE ON LIMITED CAPITAL SOURCES
AND MARKETS ABROAD.

A REAL GROWTH RATE OF 10 TO 11 PERCENT, OR SLIGHTLY
BETTER, IS PREDICTABLE, HOWEVER, FOR CALENDAR YEARS
1973 AND 1974 AND AN ANNUAL AVERAGE GROWTH
OF 9.5 PERCENT DURING COURSE OF SIXTH 4-YEAR PLAN (1973-76).

SECRET

SECRET

PAGE 03 TAIPEI 04202 03 OF 04 120955Z

15.

C. FOLLOWING FIGURES RELATE THIS IMPRESSIVE
GROWTH TO DEFENSE EXPENDITURES:
(MILLIONS OF US DOLLARS - CONSTANT PRICES)

FY 74 FY 75 FY 76 FY 77 FY 78 FY 79

GNP 9,110 9,994 10,923 11,906 12,978 14,978

SELF- 799.0 867.0 943.0 1038.0 1113.0 1201.0

FINANCED

DEF.EXPND.

(SFDE)

SFDE AS PER 9.4 9.3 9.1 9.1 8.9 8.9

CENT OF GNP

EXPORTS 4,263 4,945 5,637 6,313 7,071 7,919

NON-MIL. 232.3 295.7 295.3 327.5 339.6 350.0

DEBT SERVICE

NON-MIL. 5.4 6.0 5.2 5.2 4.8 4.4

DEBT SERVICES

RATIO (FIGURES ARE PERCENT)

MIL. DEBT 47.0 62.0 78.0 84.0 89.0 98.0

SERVICE (FMS)

TOTAL 279.3 357.7 373.3 411.5 428.6 448.0

FOREIGN

DEBT SERVICE

TOTAL 6.6 7.2 6.6 6.5 6.1 5.7

FOREIGN

DEBT SERVICE (FIGURES ARE PERCENTAGES)

RATIO#

DEBT SERVICING AS PERCENT OF EXPORTS (CALCULATIONS BASED
ON NEW EXCHANGE RATE US\$ EQUALS 38NT\$

SECRET

SECRET

PAGE 04 TAIPEI 04202 03 OF 04 120955Z

16. D. THROUGH ROC EXPORT BOOM AND LARGE SCALE INVEST-
MENT EXPENDITURES BY BOTH BUSINESS AND GOVERNMENT
SHOULD BEGIN TO MODERATE BY 1975, DEBT SERVICE SHOULD
REMAIN LOW. ABOVE PROJECTIONS ARE BASED ON AN AVERAGE
REAL EXPORT GROWTH OF 15 PERCENT OVER THE NEXT FIVE
YEARS, SLIGHTLY HIGHER THAN THE 12.9 PERCENT ORIGINALLY
PROJECTED BY ROC. TAKING INTO ACCOUNT PRICE INCREASES,
ACTUAL RECEIPTS SHOULD BE EVEN HIGHER, FURTHER
DEPRESSING THE DEBT SERVICE
BURDEN. WITH A HEALTHY EXPORT SECTOR,
DIF SERVICE CHARGES ON ANY REASONABLE PROJECTED NON-
MILITARY LOAN REPAYMENTS ARE NOT EXPECTED TO RISE ABOVE
6 PERCENT. ADD PRINCIPAL AND INTEREST RE-
PAYMENTS UEMMING FROM MILITARY CREDITS, AND TOTAL REPAY-
MENT BURDEN WILL STILL BE AROUND SIX PERCENT BY FY 79--
A RATIO WELL BELOW THAT OF MOST DEVELOPING COUNTRIES.

17.

E. TOTAL ANNUAL FOREIGN CURRENCY EXPENDITURE FOR
MILITARY PROCUREMENT, HOWEVER, MUST INCORPORATE NOT ONLY
FOREIGN DEBT SERVICE ARISING FROM FMS CREDIT PURCHASES,
BUT ALSO ALL OTHER FOREIGN CURRENCY CASH AND COMMERCIAL
CREDIT PURCHASES OF MILITARY ITEMS. THIS COMBINED TOTAL

COULD RISE FROM AN ESTIMATED \$132.5 MILLION IN FY 74 TO
\$387.5 MILLION IN FY 79, IN BOTH CASES EXCLUDING IN-

SECRET

NNN

MRN: 1973TAIPEI004202 SEGMENT NUMBER: 000004 ERROR READING TEXT INDEX
FILE; TELEGRAM TEXT FOR THIS SEGMENT IS UNAVAILABLE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 12 JUL 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: worrelsw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973TAIPEI04202
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS MCCONAUGHY
Errors: CORE1
Film Number: n/a
From: TAIPEI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730737/aaaabari.tel
Line Count: 337
Locator: ADS TEXT UNRETRIEVABLE
Office: ACTION PM
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: 73 A) STATE 024348; B) STATE 024958
Review Action: RELEASED, APPROVED
Review Authority: worrelsw
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 31 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <31-Jan-2002 by martinjw>; APPROVED <28 FEB 2002 by worrelsw>; APPROVED <28 FEB 2002 by worrelsw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SECURITY ASSISTANCE, ROC - ASSESSMENT
TAGS: MILI, TW
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005